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CASTLE VALLEY SPECIAL SERVICE DISTRICT

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February 21, 2002

RECEIVED

FEB 23 2002

DIVISION OF
OIL, GAS AND MINING

State of Utah
Department of Natural Resources
Division of Oil, Gas and Mining
1594 West North Temple, Suite 1210
Salt Lake City, Utah 84114-5801

Re: Energy West Mining Company
Mill Fork Tract
Mining Permit Application

Gentlemen:

Energy West Mining Company published in January, a Notice of Permit Size Increase for the Deer Creek Mine. This mining permit is for the Mill Fork Tract Lease. Energy West is proposing to expand their Deer Creek Mine operations to include the Mill Fork Lease.

This mining permit for the Mill Fork Tract Lease is located in close proximity to the Little Bear Spring and its recharge area. Little Bear spring is of extreme importance to the Castle Valley Special Service District. It is the primary culinary water source for the communities of Huntington, Cleveland and Elmo. This spring provides approximately 60% of the total water supply for these towns. It has been used since 1960 and has always provided high quality drinking water. The only treatment required for its use has been chlorination. This spring has been an invaluable resource to the Castle Valley Special Service District and the citizens who drink its water.

One of the major concerns addressed in the Environmental Assessment of this lease was the protection of the Little Bear Spring. Based on the USFS Record of Decision, the BLM offered the Mill Fork Tract Lease, excluding 880 acres that encompasses the Little Bear Canyon watershed, which was designated as a Municipal Water Supply. This was done to protect the Little Bear Spring and minimize the potential for mining impacts to the spring. Since that time, Genwal Resources has applied for a lease on those 880 acres, known as the South Crandall Lease.

To determine the recharge area of the spring and to determine the potential impacts that mining the Mill Fork and South Crandall Leases would have on the Little Bear Spring, numerous hydrologic studies have been conducted. The Division of Oil, Gas and Mining has contributed partial funding for some of these studies and are well aware of the results and conclusions.

*Incoming
C/015/018
Copy to Don, Jeff, Dan,
Jim, Dana, Mike, Gregg,
Dave A.*

The general consensus of these studies has been that most of the recharge water is coming to the spring from the south and is probably following the faults associated with the Mill Fork Grabben. These reports assume that water flowing in Mill Fork Canyon and through its alluvial deposits next to the streambeds, enter the Mill Fork Grabben faults and then travel through the faults to the spring. Recent dye tracer studies conducted by Mayo and Associates have shown a direct connection from Mill Fork Canyon to Little Bear Spring.

We now know from dye tracer studies and electro magnetic surveys conducted by Aqua Track that hydraulic communication exists between surface and subsurface waters in Mill Fork Canyon and Little Bear Spring. This greatly increases the potential for adverse impacts on the spring by mining in the Mill Fork Tract Lease. Underground mining of this Lease has the potential to impact the flows to the spring by decreasing the creek flows and alluvial flows. This could occur by interruption of the flows to the numerous springs that discharge into the Mill Fork drainage and/or by undermining and subsiding the upper portions of the Mill Fork headwater drainage. Either of these activities would reduce the creek flows and reduce the flows to the Little Bear Spring.

Recognizing these and other possible impacts to the spring from mining the Mill Fork and South Crandall Leases, the Castle Valley Special Service District has been working with Energy West and Genwal Resources to prepare an acceptable mitigation plan for the potential disruption of the Little Bear Spring (see Castle Valley Special Service District letter dated February 8, 2002). This plan would provide for the construction of a new surface water treatment plant of a size equal to the Little Bear Spring. We require that this plant be built and operational prior to mining operations, so that if any interruptions to the spring occur, the treatment plant could be placed into immediate service.

Both mining Companies have been very cooperative and have indicated that they would enter into this mitigation plan. However, we do not have any written agreements for this plan. Considerable uncertainty exists as to whether Genwal Resources will even be successful in obtaining the South Crandall Lease. We remain uncomfortable about not having any binding agreement.

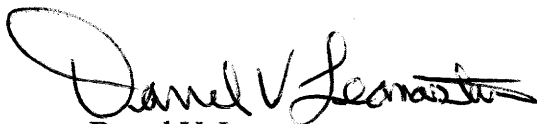
Therefore, Notice is hereby given to DOGM and Energy West that we will not approve the release of the Mine Permit to the Mill Fork Tract Lease until such time that a written agreement for the construction, operating and maintenance of the new water treatment plant is approved by Castle Valley Special Service District.

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We request that DOGM, under the state and Federal Water Replacement Rules, stipulate that prior to the approval of the mining permit, an agreement be entered into by Castle Valley Special Service District and Energy West agreeing to the proposed Mitigation Plan for replacement of the Little Bear Spring.

The Castle Valley Special Service District will support this permit application when the mitigation measures outlined are prepared and approved. We appreciate Energy West's cooperation and positive attitude in this matter.

Very truly yours,

A handwritten signature in black ink, appearing to read "Darrel V. Leamaster", with a stylized flourish at the end.

Darrel V. Leamaster
District Manager